

Message Text

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PAGE 01 CAIRO 17338 161142Z
ACTION NEA-10

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NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9768
INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L CAIRO 17338

E.O. 11652: GDS
TAGS: EAID EFIN EALR EG
SUBJECT: ASSISTANCE TO EGYPT: GODE GUARANTEED LOAN

REF: CAIRO 17307 (NOTAL)

1. ACCORDING TO CHASE REPS, IMPLEMENTATION OF GODE GUARANTEED \$250 MILLION LOAN IS AT A STANDSTILL. NOTHING IS HAPPENING, AND UNLESS MATTERS GET STARTED IN NEXT 2-3 DAYS, PLACEMENT WILL QUITE LIKELY BE CARRIED OVER INTO THE MIDDLE OF JANUARY.

2. PROBLEM APPEARS TO BE RELATED TO ACTIVITIES-OR LACK THEREOF- OF ABDEL AZZIZ AL DUKHEIL, EXEC DIRECTOR OF GODE (AND SAUDI MINFIN U/SEC), WHO IS REPORTED AS BEING NEW IN THE JOB AND ANXIOUS TO MAKE A GOOD IMPRESSION ON THE SHARE-HOLDERS. HE IS INSISTING THAT INTEREST SHOULD BE AT ONE PERCENT OVER LONDON INTERBANK, INSTEAD OF ONE AND ONE-EIGHTH, AND CHASE'S RELUCTANCE TO GO TO MARKET AT THAT LEVEL WITH ONLY INDIRECT ARAB GUARANTEES HAVE LED TO A PARTIAL STALEMATE.

3. CHASE POINTS OUT THAT EVEN IF AGREEMENT WERE REACHED ON INTEREST RATE, WHICH IS POSSIBLE, THEY COULD STILL NOT MOVE FORWARD ON PLACEMENT SINCE INDIVIDUAL LETTERS OF GUARANTEE FROM SHAREHOLDERS HAVE NOT YET BEEN OBTAINED, AND THIS IS ALSO DUKHEIL'S TASK. (FORM OF LETTER HAS BEEN AGREED UPON). DUKHEIL HAS EVIDENTLY DECIDED THAT THIS CAN BE TAKEN CARE OF IN RIYADH AT END OF THIS MONTH WHEN SHAREHOLDERS MEET.
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PAGE 02 CAIRO 17338 161142Z

FACT THAT THIS WILL INEVITABLY FORCE CONSIDERABLE ADDITIONAL

DELAY IN GETTING THE LOAN TO EGYPT DOES NOT SEEM TO BE OF CONCERN TO HIM.

4. COMMENT: CHASE REPS, WHO AS A GROUP HAVE COMMENDABLY HIGH FRUSTRATION THRESHOLD, ARE BEGINNING TO SHOW UNDERSTANDABLE SIGNS OF A DIMINISHING SENSE OF URGENCY. CHRISTMAS VACATIONS ARE IN THE OFFING, AND SINCE NO ONE ELSE APPEARS CONCERNED, INCLUDING THE EGYPTIANS, THEY SEE LITTLE REASON TO CONTINUE PUSHING--ALTHOUGH THEY ADMIT THEY WILL.

5. IT IS ALSO NOTEWORTHY THAT CRITICAL DECISIONS ON EGYPT'S ECONOMIC FUTURE ARE PRESENTLY BEING MADE IN CABINET (REFTEL) WHERE A RELATIVELY AUSTERE BUDGET, EMBODYING THE REDUCTIONS IN EXPENDITURES THAT THE IMF (AND OTHERS) HAVE BEEN PUSHING, IS UNDER CONSIDERATION. THE SUGGESTION HAS BEEN MADE THAT GODE IS DELIBERATELY DELAYING THE LOAN GUARANTEE AS A MEANS OF ENCOURAGING THE EGYPTIANS TO MAKE DIFFICULT DECISIONS IF THEY WISH TO CONTINUE RECEIVING ASSISTANCE. TO THE EXTENT THIS IS TRUE, AND SAUDI MINFIN EL KHAYL, WHO IS IN CAIRO FOR OTHER PURPOSES, IS REPORTED TO HAVE MADE THIS POINT, IT MAY BE THAT THE ARABS ARE USING TOO SMALL A CARROT. TO THE EGYPTIANS, \$500 MILLION FROM GODE (\$250 MILLION IN GUARANTEES, \$250 MILLION IN A DIRECT LOAN AFTER GUARANTEED LOAN IS IN PLACE) IS HARDLY SUFFICIENT TO COMPENSATE FOR WHAT THEY SEE AS THE POTENTIALLY HEAVY POLITICAL COSTS OF ECONOMIC RETRENCHING. IN ANY CASE EGYPTIANS REGARD GODE ASSISTANCE AS ALREADY HAVING BEEN COMMITTED, AND THEIR OWN LACK OF URGENCY IS CERTAINLY A FACTOR IN THE DELAYS.
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